The Manitoba Hydro-Electric Board

Quarterly Report

for the three months ended
June 30, 2017

Comments by **The Chair of the Board** and by **The President and Chief Executive Officer**

Financial Overview

Manitoba Hydro's consolidated net loss was $69 million for the first three months of the 2017-18 fiscal year compared to a net loss of $48 million for the same period last year. The increase in net loss is primarily attributable to restructuring costs as well as finance costs and depreciation and amortization expense. These increases in expenses are partially offset by significantly higher extraprovincial electricity revenues driven by higher generation due to strong water conditions. The cost of natural gas is a flow through cost passed onto customers through rates approved by the Public Utilities Board (PUB) and therefore is not a driver for the increase in net loss compared to the prior year. Excluding the restructuring expenses, net loss would have been $28 million, an improvement of $20 million over the prior year.

The consolidated net loss was comprised of a $60 million loss in the electricity segment, an $11 million loss in the natural gas segment, a $1 million net profit in other segments and a $1 million profit impact in adjustments and eliminations.

The net loss in both the electric and natural gas sectors is expected to be recouped over the winter heating season. Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year with net income reaching approximately $100 million for 2017-18. This forecast was based on near record water storage conditions to begin the fiscal year, forecasted export market conditions, the assumption of normal winter weather and the recent Public Utilities Board Orders for both electric and gas operations.

Electric Segment

Revenues from electricity sales within Manitoba totaled $321 million for the three-month period, which was $9 million or 2.9% higher than the same period last year. The increase in domestic revenue was primarily attributable to an increase in average usage and customer growth, partially offset by warmer weather resulting in lower heating loads. Extraprovincial revenues of $134 million were $29 million or 27.6% higher than the same period last year reflecting higher dependable sales volumes as a result of higher generation due to favourable water conditions as well as higher export prices on opportunity sales. Energy sold in the export market was 3.3 billion kilowatt-hours compared to 2.9 billion kilowatt-hours sold in the same period last year. Other revenues of $7 million were consistent with the same period last year.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $525 million for the three-month period, an increase of $54 million or 11.5% higher than the same period last year. The increase was primarily due to a $45 million increase in other expenses, a $5 million increase in net finance expense and a $3 million increase in depreciation and amortization. The increase in other expenses was primarily due to $39 million in restructuring charges associated with the voluntary departure program

which launched in April 2017 and an increase in demand side management expenses including the LED Roadway Lighting Conversion Project. The increase in net finance expense was primarily the result of foreign exchange losses. The increase in depreciation and amortization was primarily due to new additions to plant being placed into service.

The net loss before net movement in regulatory balances is $82 million. After considering the net movement of $19 million in the regulatory deferral balances, there is a net loss of $63 million of which $60 million is attributable to Manitoba Hydro and $3 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first three months of the 2017-18 fiscal year.

Expenditures for capital construction for the three-month period amounted to $662 million compared to $571 million for the same period last year. Expenditures for the current period included $258 million for the Bipole III Reliability P[illegible]t and $273 million related to construction of the Keeyask project. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred $16 million for electric demand side management programs.

Natural Gas Segment

The net loss in the natural gas segment was $11 million for the three-month period compared to an $8 million net loss for the same period last year. Revenue, net of cost of gas sold (net revenue), was $20 million which was $16 million lower than the same period last year. The decrease in net revenue was largely the result of changes in the purchase gas variance accounts therefore the net income impact was minimal. Delivered gas volumes were 317 million cubic metres compared to 363 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $38 million compared to $36 million for the same period last year. The increase in expenses is primarily attributable to restructuring charges of $2 million allocated to the natural gas segment.

The net loss before net movement in regulatory balances is $18 million. After considering the net movement of $7 million in the regulatory balances, there is a net loss of $11 million. In the prior year the net loss before net movement in regulatory balances was nil but after considering the net movement of $8 million in the regulatory balances, there was an $8 million loss.

Capital expenditures in the natural gas segment were $8 million for the current three-month period which is comparable to the prior year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred $2 million for gas demand side management programs.

Other Segments

The other segments include Manitoba Hydro International Ltd., Manitoba Hydro Utility Services, Minell Pipelines Ltd. and Teshmont Holdings Ltd. The net income was $1 million in other segments for the three-month period compared to net income of $1 million for the same period last year. Revenue was $15 million which was the same as the prior period. Expenses attributable to other segments amounted to $14 million which is consistent with the same period last year.

There is also a $1 million profit impact in adjustments and eliminations as a result of the requirement to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

Natural Gas Rate Decrease

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta (and as approved by the PUB), rates for residential customers decreased on May 1, 2017 by 3.1% or approximately $23 per year. Rate changes for larger volume customers ranged from decreases of 3.6% to 6.8% depending on the customer class and consumption levels.

The bill impacts are primarily the result of changes in the price that Manitoba Hydro pays for natural gas from Alberta.

Manitoba Hydro Applies for Electric Rate Increases

Manitoba Hydro filed a Letter of Application at the PUB on May 5 for its 2017-18 General Rate Application.

The rate application requests the PUB to approve an interim 7.9% rate increase effective August 1, 2017 and an additional 7.9% increase effective April 1, 2018. It also asks the PUB to confirm the previous 3.36% rate increase awarded on an interim basis in 2016. The utility's 2016 Integrated Financial Forecast (IFF16) projects a total of five years of 7.9% rate increases starting in 2017 after which it forecasts lower increases of 2% annually.

The rate increases are needed to protect the financial sustainability of Manitoba Hydro. Specifically, the rate increases will help address the corporation's weak balance sheet and insufficient cash flow particularly during the critical period of developing the Keeyask Generating Station and Bipole III Reliability Project.

In addition to the challenges of building two major projects concurrently, Manitoba Hydro has seen both projects increase in cost. The utility is also experiencing lower growth in domestic demand for electricity and continued lower prices for electricity on the export opportunity market, both of which impact revenues.

For the average residential consumer using 1 000 kilowatt-hours per month, the 7.9% increase in 2017 would result in a monthly increase of $6.88 in their electricity bill. The 7.9% in 2018 would result in a further increase of $7.43 per month for the same customer.

Voluntary Departure Program a Success

Manitoba Hydro offered the Voluntary Departure Program (VDP) to its employees on April 10 in support of its plan to reduce its workforce by 900 positions. The program closed on May 19 and there have been 820 employees approved almost all of whom will leave the corporation by January 31, 2018. Achieving the bulk of the corporation's targeted reductions through voluntary means is a critical part of the utility's plan to reduce its operating, maintenance and administrative costs.

The VDP followed a 15% reduction in senior management positions reporting directly to vice-presidents. The number of vice-presidents was previously reduced by 30% through an executive restructuring in February.

The senior management changes and VDP are two actions taken to transform the utility that began September 2016 after a review by the Manitoba Hydro-Electric Board identified the need to address the corporation's financial health.

Environmental Hearing into Manitoba-Minnesota Transmission Project Ends

A month-long public hearing before the Manitoba Clean Environment Commission into the preferred route of the Manitoba-Minnesota Transmission Project (MMTP) concluded on June 16 with the filing of final arguments.

Under legislation, the commission has 90 days following the close of the hearing to submit its report and recommendations to government.

The focus of the hearing was Manitoba Hydro's route selection for the 213-kilometre, 500-kilovolt transmission line, which will run from the Dorsey Converter Station near Winnipeg to the U.S. border in southeastern Manitoba. More than 700 000 alternative routes were initially considered. The final preferred route balances the perspectives and values of all interested parties.

The MMTP will connect to the Great Northern Transmission Line (GNTL) currently under construction by Minnesota Power with an expected in-service date in 2020.

Once in service MMTP will double the amount of electricity Manitoba Hydro can import from the U.S., which is especially valuable during a drought or during other emergency situations. As such, the MMTP will provide additional dependable energy for Manitobans.

The MMTP and GNTL are also needed to allow Manitoba Hydro to transmit electricity under the 250 megawatt Power Purchase Agreement with Minnesota Power. This 15-year, firm power sale is scheduled to begin in 2020, providing the corporation with an important source of revenue.

The Province of Manitoba approved the need for the MMTP in June 2014 following the Need For and Alternatives To review of Manitoba Hydro's preferred development plan by the Public Utilities Board. A subsequent review by the Manitoba Hydro-Electric Board in 2016 confirmed the need for the MMTP.

Canada Summer Games Manitoba Hydro Torch Relay

Manitoba Hydro sponsored the Manitoba Hydro Torch Relay for this year's Canada Summer Games, held in Winnipeg, Gimli and Kenora, Ontario from July 28 to August 13.

The Manitoba Hydro Torch Relay travelled to 11 communities and covered more than 3 500 kilometres throughout Manitoba and Ontario starting June 23 in Steinbach and ending July 26 in downtown Winnipeg. The last stop for the relay includes an afternoon outdoor celebration at Manitoba Hydro Place. The torch lights the Canada Games cauldron during the opening ceremonies at Bell MTS Place on July 28.

Over 200 torchbearers were selected to participate in the relay in Steinbach, Kenora, Morden, Gillam-Fox Lake, Thompson, The Pas-Opaskwayak, Dauphin, Sagkeeng-Great Falls, Gimli, Brandon and Winnipeg. Manitoba Hydro employees hosted community events at each location in the province.

The route in Manitoba was selected to reflect the diversity of the province and to include as many Manitobans as possible in the games.

The Canada Summer Games includes 16 sports with more than 250 events and a major cultural festival. Over 4 000 athletes and coaches and more than 20 000 people will be visiting the province.

H. Sanford Riley
Chair of the Board

Kelvin Shepherd, P. Eng.
President and
Chief Executive Officer
August 14, 2017

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2017	**2016**
Revenues		
Domestic – Electric	321	312
– Gas	54	59
Extraprovincial	134	105
Other	21	21
	530	497
Expenses		
Cost of gas sold	34	23
Operating and administrative	157	154
Finance expense (net)	164	159
Depreciation and amortization	105	101
Water rentals and assessments	32	31
Fuel and power purchased	31	31
Capital and other taxes	37	35
Other expenses	68	21
	628	555
Net loss before net movement in regulatory balances	(98)	(58)
Net movement in regulatory balances	26	6
Net Loss	(72)	(52)
Net loss attributable to:		
Manitoba Hydro	(69)	(48)
Non-controlling interest	(3)	(4)
	(72)	(52)

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at June 30	*As at March 31*	*As at June 30*
	2017	**2017**	**2016**
Assets			
Current assets	1 452	1 262	1 510
Property, plant and equipment	20 332	19 757	17 678
Non-current assets	765	753	644
Total assets before regulatory deferral balance	22 549	21 772	19 832
Regulatory deferral balance	586	566	501
	23 135	22 338	20 333
Liabilities and Equity			
Current liabilities	1 613	1 620	1 062
Long-term debt	16 891	16 102	14 903
Other long-term liabilities	1 534	1 526	1 584
Deferred revenue	681	653	571
Non-controlling interest	174	170	148
Retained earnings	2 829	2 899	2 780
Accumulated other comprehensive loss	(658)	(709)	(776)
Total liabilities and equity before regulatory deferral balance	23 064	22 261	20 272
Regulatory deferral balance	71	77	61
	23 135	22 338	20 333

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2017	**2016**
Operating Activities		
Cash receipts from customers	610	569
Cash paid to suppliers and employees	(560)	(427)
Net interest	(191)	(175)
	(141)	(33)
Financing Activities	1 028	574
Investing Activities	(684)	(581)
Net increase (decrease) in cash	203	(40)
Cash at beginning of period	646	955
Cash at end of period	849	915

Consolidated Statement of Comprehensive Income (Loss)

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2017	**2016**
Net Loss attributable to Manitoba Hydro	(69)	(48)
Other Comprehensive Income (Loss)		
Items that will be reclassified to income		
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	43	(5)
Items that have been reclassified to income		
Realized foreign exchange (gains) losses on debt in cash flow hedges	7	5
	50	-
Comprehensive Loss attributable to Manitoba Hydro	(19)	(48)

Segmented Information

In Millions of Dollars (Unaudited)

	Electric Segment		Natural gas segment		All other segments		Eliminations		Total	
Three Months Ended June 30	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue	462	425	54	59	15	15	(1)	(2)	530	497
Expenses	544	485	72	59	14	14	(2)	(3)	628	555
Net income (loss) before net movement in regulatory balances	(82)	(60)	(18)	-	1	1	1	1	(98)	(58)
Net movement in regulatory balances	19	14	7	(8)	-	-	-	-	26	6
Net Income (Loss)	(63)	(46)	(11)	(8)	1	1	1	1	(72)	(52)
Net income (loss) attribute to:										
Manitoba Hydro	(60)	(42)	(11)	(8)	1	1	1	1	(69)	(48)
Non-controlling interest	(3)	(4)	-	-	-	-	-	-	(3)	(4)
	(63)	(46)	(11)	(8)	1	1	1	1	(72)	(52)
Total Assets	22 550	19 790	705	652	90	73	(210)	(182)	23 135	20 333

Generation and Delivery Statistics

	Three Months Ended June 30	
	2017	**2016**
Electricity in gigawatt-hours		
Hydraulic generation	8 776	8 476
Thermal generation	2	2
Scheduled energy imports	23	3
Wind purchases (Manitoba)	243	249
Total system supply	9 044	8 730
Gas in millions of cubic metres		
Gas sales	174	183
Gas transportation	143	180
	317	363

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For further information contact:

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Manitoba Hydro

Available in accessible formats upon request.